



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

## Kaynes Technology

29 July 2024

### Operationally strong and inline 1QFY25; robust guidance intact

#### RESULT UPDATE

Sector: EMS Rating: HOLD

CMP: Rs 4,240 Target Price: Rs 4,291

#### Stock Info

|                    |                     |
|--------------------|---------------------|
| Sensex/Nifty       | 81,333/24,835       |
| Bloomberg          | KAYNES IN           |
| Equity shares (mn) | 63.9                |
| 52-wk High/Low     | 4,335/1,714         |
| Face value         | Rs 10               |
| M-Cap              | Rs 271bn/ USD 3.3bn |
| 3-m Avg volume     | USD 11.5mn          |

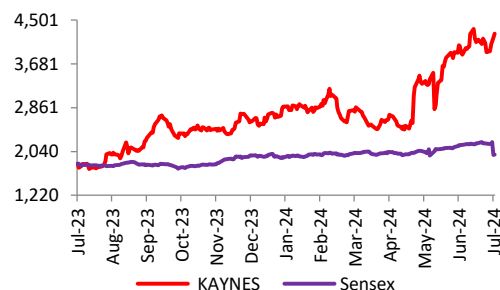
#### Financial Snapshot (Rs mn)

| Y/E Mar         | FY24   | FY25E  | FY26E  |
|-----------------|--------|--------|--------|
| Net sales       | 18,046 | 28,069 | 42,897 |
| EBITDA          | 2,542  | 4,178  | 6,428  |
| OPM (%)         | 14.1   | 14.9   | 15.0   |
| PAT (adj.)      | 1,834  | 2,785  | 3,428  |
| EPS (adj.) (Rs) | 28.7   | 43.6   | 53.6   |
| PE (x)          | 147.8  | 97.3   | 79.1   |
| P/B (x)         | 10.9   | 9.8    | 8.7    |
| EV/EBITDA (x)   | 101.9  | 64.5   | 43.7   |
| RoE (%)         | 7.4    | 10.1   | 11.0   |
| RoCE (%)        | 14.4   | 13.4   | 14.3   |
| Net-D/E (x)     | (0.5)  | (0.1)  | 0.3    |

#### Shareholding Pattern (%)

|           | Jun'24 | Mar'24 | Dec'23 |
|-----------|--------|--------|--------|
| Promoter  | 57.8   | 57.8   | 57.8   |
| - Pledged |        |        |        |
| FII       | 14.3   | 14.2   | 12.7   |
| DII       | 17.9   | 18.4   | 19.1   |
| Others    | 10.0   | 9.6    | 10.4   |

#### Stock Performance (1-year)



Kaynes Technology's (KAYNES) 1Q revenue (up 70% YoY) and EBITDA margin (13.3%) came inline; higher other income drove beat in PAT (up 106% YoY). Growth was led by strong demand in Industrial & EV, Aerospace, Outer-space & Strategic Electronics and Railways segment. Revenue mix of box build products stood higher at 49% (1QFY24 at 34%). A strong Rs 50.4bn order book (up ~Rs 1bn QoQ, 2.8x FY24 revenue) supports management's 60% YoY revenue growth and 15%+ EBITDA margin guidance for FY25. KAYNES is now getting longer period orders with entry into segments such as railways, aerospace, servers, etc. Telangana plant for Smart Meters is expected to start soon. The company expects an inflow of large orders in medical (to globally supply equipment to an MNC) and industrial verticals soon. KAYNES semiconductor foray provides vast potential for a decade. Approval for the OSAT facility in Gujarat is expected soon. In PCB manufacturing, focus will be on multi layered products (40% mix likely); KAYNES has already signed MoUs with 4 customers. New business of OSAT and PCB will meaningfully contribute from FY27. We increase FY25E earnings by 9% on higher other income while keep it intact for FY26E. On strong management guidance, we expect 54%/59%/37% CAGR in revenue/EBITDA/ PAT over FY24-26E (FY20-24: 49%/57%/110%), with ~15% EBITDA margin. While it is difficult to forecast revenue and margin of new business at such an early stage, they provide robust growth potential in mid-long term (reason for scrip's current high valuation). We remain constructive on robust prospects of KAYNES and maintain HOLD with an unchanged TP of Rs 4,291 (80x FY26E P/E). Strong growth and huge potential in new businesses (OSAT, PCB manufacturing, etc.) will keep investors interest high in KAYNES. ([concall KTAs](#))

**1Q – inline operating performance:** Revenue (up 70% YoY) and EBITDA margin (13.3%) came inline; higher other income drove beat in PAT (up 106% YoY). Growth was led by strong demand across all the verticals, more notably Industrial & EV, Aerospace, Outer-space & Strategic Electronics and Railways segment. Revenue mix of box build products stood higher at 49% from 34% in 1QFY24. Net working capital days stood high at 121 days (seasonal issue).

**1QFY25 revenue mix:** Box Build (49% vs. 34% SQLY), PCBA (49% vs. 57%), Industrial & EV (55% vs. 36%), Auto (29% vs. 32%)

**Strong guidance for FY25 intact (60% revenue growth, ~15% EBITDA margin, 10%+ PAT margin):** Order book rose by ~Rs 1bn QoQ to a strong Rs 50.4bn (2.8x FY24 revenue). This supports management's 60% revenue growth guidance for FY25. The company is getting longer period orders with entry into segments such as railways, aerospace, servers, etc. Superior product mix and operating leverage benefit will help sustain 15%+ EBITDA margin. Telangana plant for Smart Meters is expected to start soon. One of the world's leading medical providers has approved KAYNES as a vendor to supply medical equipment in US & Europe markets. It is also likely to get significant export orders in Industrial vertical.

**Semiconductor foray provides vast potential for a decade:** KAYNES has signed MoUs with Gujarat state government to set up an OSAT facility, approval of which is expected soon. OSAT business has an asset turnover of 1.2x and 15-20% EBITDA margin. In PCB manufacturing, focus will be on multi layered products (40% mix); KAYNES has already signed MoUs with 4 customers. New business of OSAT and PCB will meaningfully contribute from FY27.

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Investors are advised to refer disclosures made at the end of the research report.

## Concall key highlights (1QFY25)

- **Inline revenue (up 70% YoY) and EBITDA margin (13.3%); higher other income drove beat in PAT (up 106% YoY) in 1Q**
- Growth led by strong demand across all the verticals, more notably Industrial & EV, Aerospace, Outer-space & Strategic Electronics and Railways segment
- Order book rose by ~Rs 1bn QoQ to Rs 50.4bn of which 60 to 70% to be executed this year
- Bagged multi year contracts from large customers
- Telangana plant for Smart Meters to start soon
- **Aims Rs 30bn revenue (up 50%+ YoY) and 15% EBITDA margin in FY25**
- **Approval for OSAT Gujarat plant likely soon**
- New business of OSAT and PCB will meaningfully contribute from FY27
- OSAT asset turn is 1.2x with 15-20% margin; reasonable capacity utilization and revenues are expected in 4QFY26
- 4 MoUs with customers in OSAT
- Industrial - likely to get significant export orders
- Medical – orders received so far are export oriented
- One of the world's leading medical providers has approved the company in US & Europe

## Exhibit 1: Kaynes (Consolidated) – Quarterly results

| (Rs mn)                             | 1QFY24        | 2QFY24        | 3QFY24        | 4QFY24        | 1QFY25        | YoY (%)          | QoQ (%)          |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|------------------|------------------|
| <b>Revenue</b>                      | <b>2,972</b>  | <b>3,608</b>  | <b>5,093</b>  | <b>6,373</b>  | <b>5,040</b>  | <b>70</b>        | <b>(21)</b>      |
| Raw material costs                  | 2,057         | 2,602         | 3,854         | 4,786         | 3,664         | 78               | (23)             |
| Employee costs                      | 236           | 223           | 249           | 320           | 335           | 42               | 5                |
| Other expenses                      | 276           | 295           | 292           | 314           | 372           | 35               | 18               |
| <b>EBITDA</b>                       | <b>403</b>    | <b>488</b>    | <b>699</b>    | <b>952</b>    | <b>669</b>    | <b>66</b>        | <b>(30)</b>      |
| Depreciation                        | 53            | 65            | 60            | 74            | 84            | 59               | 13               |
| Finance costs                       | 113           | 118           | 148           | 153           | 227           | 102              | 48               |
| Other income                        | 81            | 90            | 94            | 294           | 283           | 249              | (4)              |
| <b>PBT</b>                          | <b>319</b>    | <b>394</b>    | <b>585</b>    | <b>1,019</b>  | <b>641</b>    | <b>101</b>       | <b>(37)</b>      |
| Tax                                 | 72            | 71            | 133           | 207           | 133           | 85               | (35)             |
| <b>PAT (after JV)</b>               | <b>246</b>    | <b>323</b>    | <b>452</b>    | <b>813</b>    | <b>508</b>    | <b>106</b>       | <b>(38)</b>      |
| EPS (Rs)                            | 3.9           | 5.1           | 7.1           | 12.7          | 7.9           | 106              | (38)             |
| <b>As % Revenue</b>                 |               |               |               |               |               | <b>YoY (bps)</b> | <b>QoQ (bps)</b> |
| <b>Gross margin</b>                 | <b>30.8</b>   | <b>27.9</b>   | <b>24.3</b>   | <b>24.9</b>   | <b>27.3</b>   | <b>(349)</b>     | <b>240</b>       |
| Emp cost                            | 7.9           | 6.2           | 4.9           | 5.0           | 6.6           | (131)            | 162              |
| Other exp                           | 9.3           | 8.2           | 5.7           | 4.9           | 7.4           | (191)            | 245              |
| <b>EBITDA margin</b>                | <b>13.5</b>   | <b>13.5</b>   | <b>13.7</b>   | <b>14.9</b>   | <b>13.3</b>   | <b>(27)</b>      | <b>(167)</b>     |
| Dep                                 | 1.8           | 1.8           | 1.2           | 1.2           | 1.7           | (11)             | 50               |
| <b>EBIT margin</b>                  | <b>11.8</b>   | <b>11.7</b>   | <b>12.5</b>   | <b>13.8</b>   | <b>11.6</b>   | <b>(16)</b>      | <b>(217)</b>     |
| Interest                            | 3.8           | 3.3           | 2.9           | 2.4           | 4.5           | 72               | 210              |
| Other income                        | 2.7           | 2.5           | 1.9           | 4.6           | 5.6           | 288              | 100              |
| <b>PBT margin</b>                   | <b>10.7</b>   | <b>10.9</b>   | <b>11.5</b>   | <b>16.0</b>   | <b>12.7</b>   | <b>200</b>       | <b>(327)</b>     |
| Effective tax rate                  | 22.6          | 18.0          | 22.7          | 20.3          | 20.8          | (183)            | 52               |
| <b>PAT margin</b>                   | <b>8.3</b>    | <b>9.0</b>    | <b>8.9</b>    | <b>12.8</b>   | <b>10.1</b>   | <b>178</b>       | <b>(268)</b>     |
| <b>Vertical-wise Revenues</b>       |               |               |               |               |               | <b>YoY (%)</b>   | <b>QoQ (%)</b>   |
| Automotive                          | 951           | 1,221         | 1,447         | 1,470         | 1,462         | 54               | (1)              |
| Industrial                          | 1,070         | 1,365         | 2,702         | 3,490         | 2,772         | 159              | (21)             |
| Aero/Def/Outer-space/Nuclear        | 89            | 108           | 36            | 308           | 101           | 13               | (67)             |
| Medical                             | 149           | 115           | 87            | 191           | 50            | (66)             | (74)             |
| Railways                            | 327           | 529           | 429           | 701           | 403           | 23               | (42)             |
| IoT / IT, Cons and Others           | 386           | 272           | 393           | 213           | 252           | (35)             | 18               |
| <b>Segment-wise Revenue Mix (%)</b> |               |               |               |               |               |                  |                  |
| OEM- Box Build                      | 34            | 45            | 38            | 47            | 49            |                  |                  |
| OEM-PCBA                            | 57            | 52            | 59            | 53            | 49            |                  |                  |
| ODM                                 | 5             | 0             | 1             | (1)           | 1             |                  |                  |
| Product Engg. and IoT solns         | 4             | 3             | 2             | 0             | 1             |                  |                  |
| <b>Orderbook (Rs mn)</b>            | <b>30,004</b> | <b>34,618</b> | <b>37,890</b> | <b>41,152</b> | <b>50,386</b> |                  |                  |

Source: Company, Systematix Institutional Research

Exhibit 2: Revenue mix trend

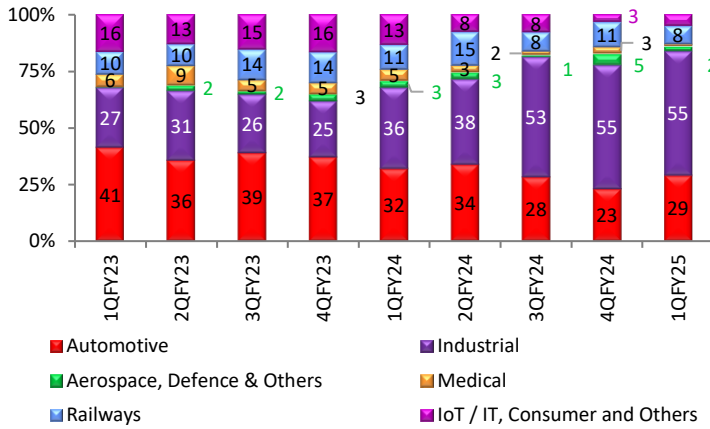


Exhibit 3: Vertical-wise Revenue mix – 1QFY25

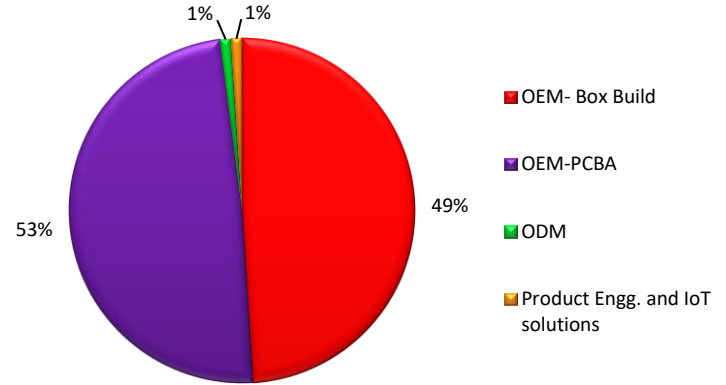


Exhibit 4: Revenue - quarterly trend

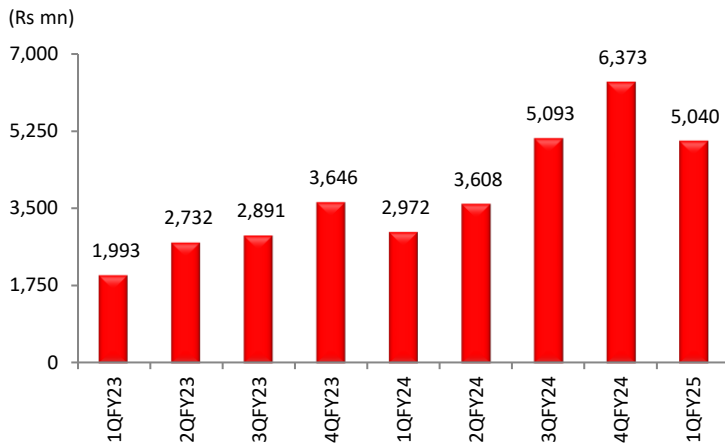


Exhibit 5: Expenses as % Revenue - quarterly trend

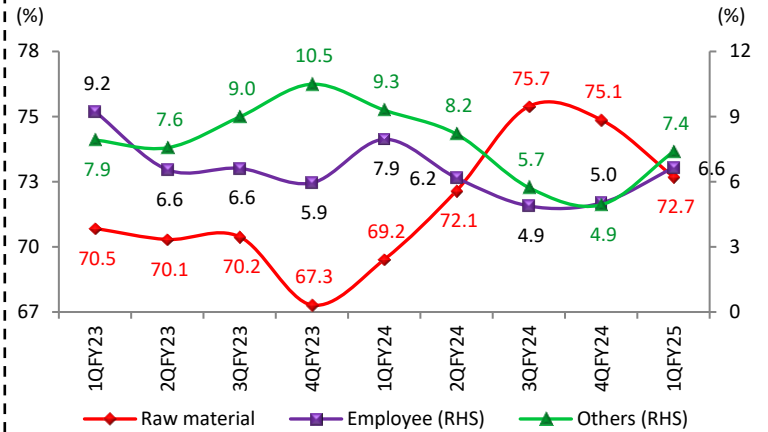


Exhibit 6: EBITDA, PAT &amp; margin trend

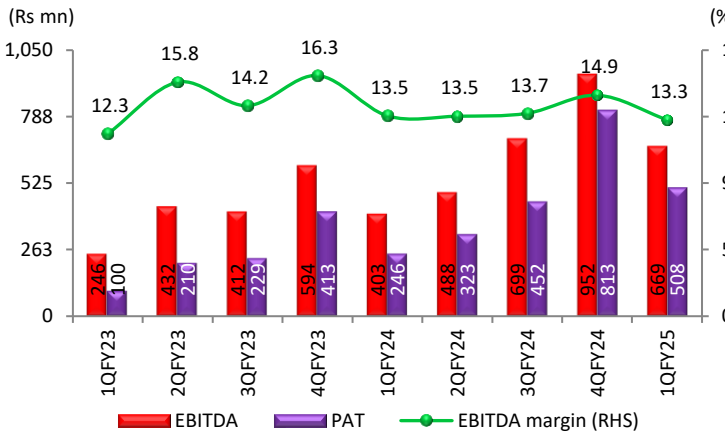
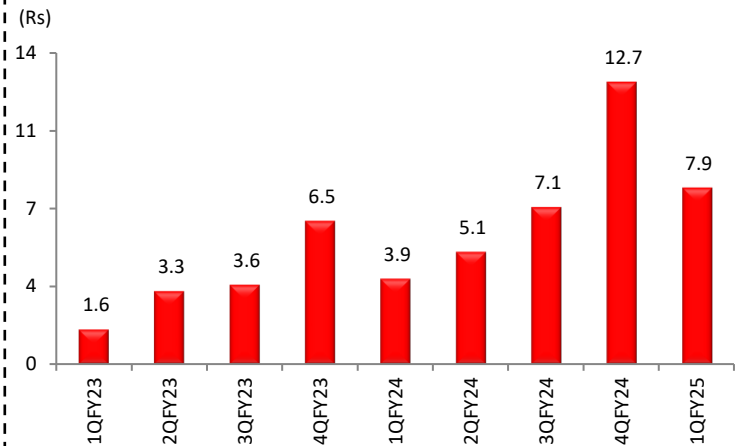
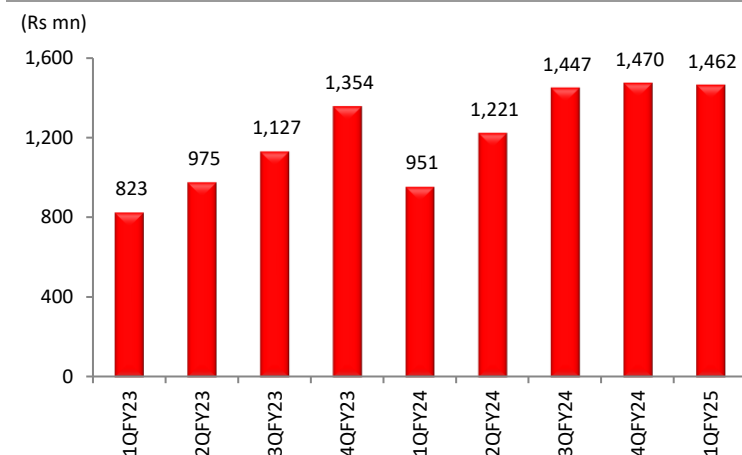
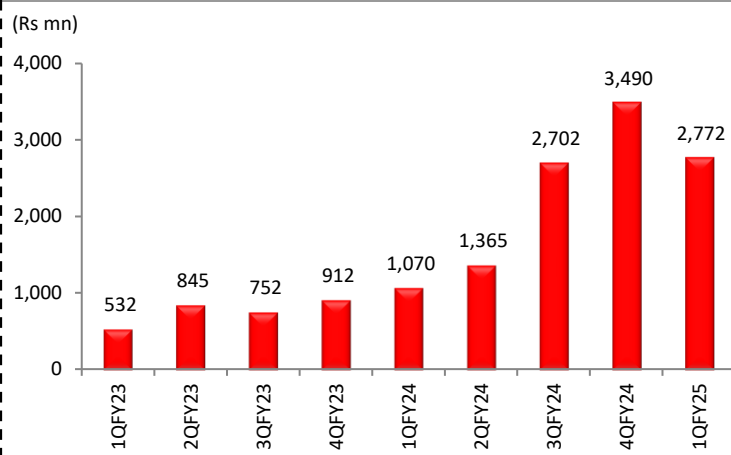
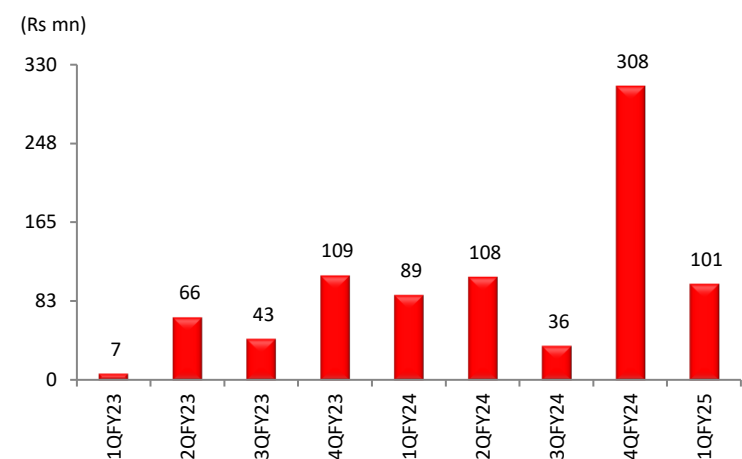
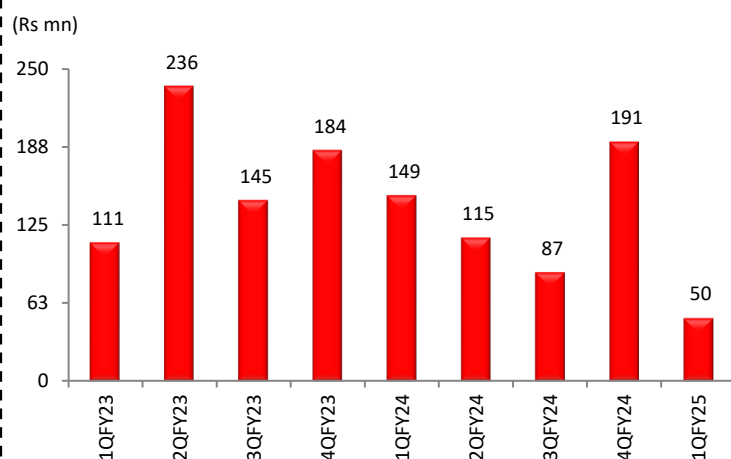
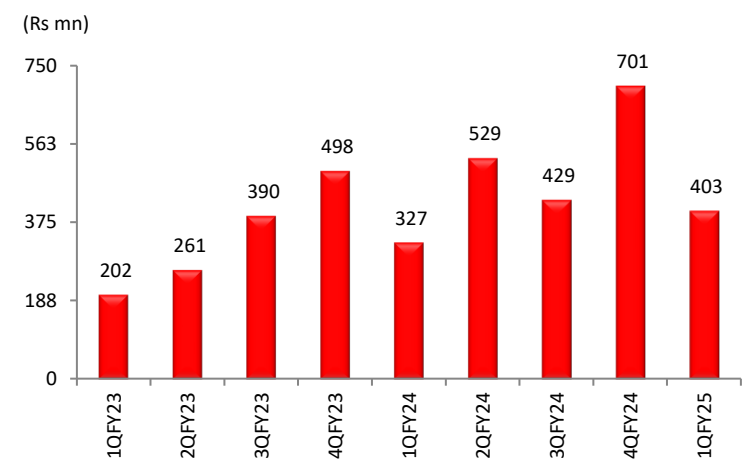
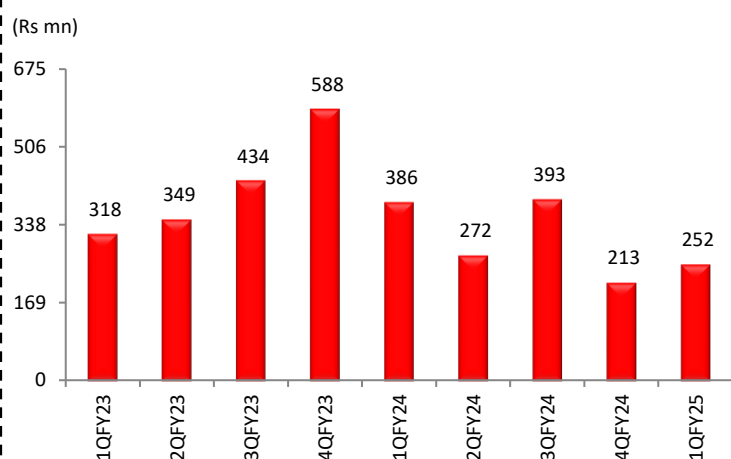


Exhibit 7: Earnings - quarterly trend



Source: Company, Systematix Institutional Research

**Exhibit 8: Automotive - Revenue trend****Exhibit 9: Industrial - Revenue trend****Exhibit 10: Aerospace, Defence & Others - Revenue trend****Exhibit 11: Medical - Revenue trend****Exhibit 12: Railways - Revenue trend****Exhibit 13: IoT / IT, Consumer and Others - Revenue trend**

Source: Company, Systematix Institutional Research

Exhibit 14: Revenue – annual growth trend

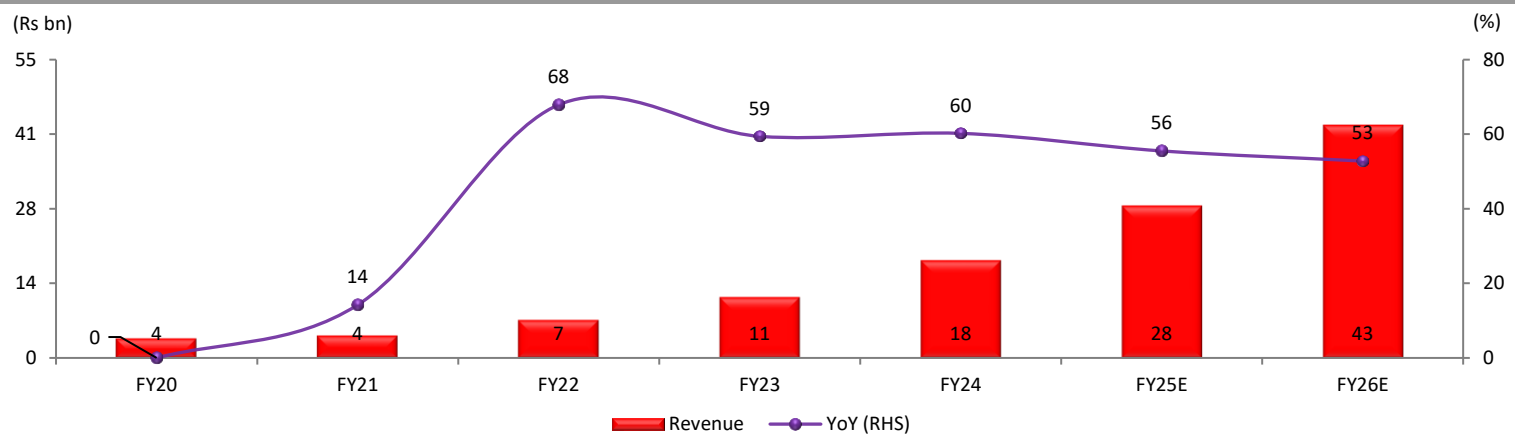
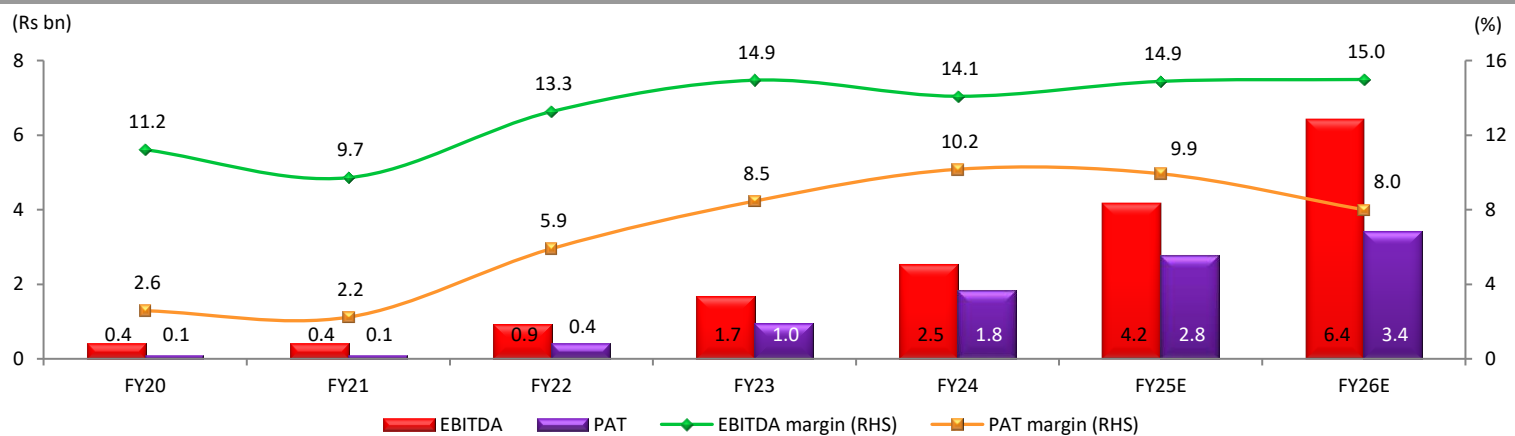


Exhibit 15: EBITDA, PAT – Annual growth, margin trend



Source: Company, Systematix Institutional Research

## Valuation and View

KAYNES is an end-to-end and IoT solutions-enabled integrated electronics manufacturer in India, having capabilities across the entire spectrum of ESDM services. The company has over three decades of experience in providing Conceptual Design, Process Engineering, Integrated Manufacturing and Life Cycle Support for its major customers. The company has 8 manufacturing facilities for high-value products with variable or flexible volumes. Exports contribute 15% to revenue from 350+ customers in 26 countries, including marquee MNC names. It enjoys long standing relationships (>10 years) with its top 10 customers across verticals.

We increase FY25E earnings by 9% on higher other income while we keep it intact for FY26E. On strong management guidance (supported by Rs 50.4bn order book, 2.8x FY24 revenue), we expect 54%/59%/37% CAGR in revenue/EBITDA/ PAT over FY24-26E (FY20-24: 49%/57%/110%), with ~15% EBITDA margin.

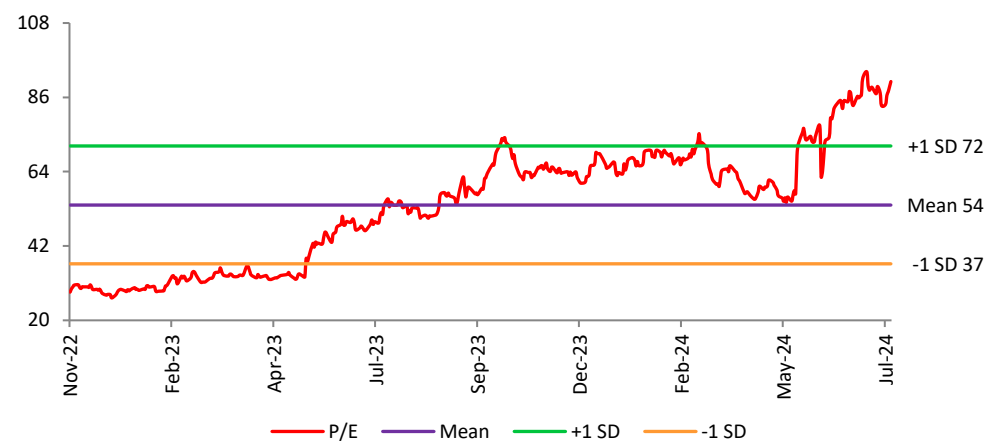
While it is difficult to forecast revenue and profitability of new business, they provide robust growth potential in mid-long term (reason for scrip's current high valuation). We remain constructive on robust prospects of KAYNES and maintain **HOLD** with an unchanged TP of Rs 4,291 (80x FY26E P/E). Strong growth and huge potential in new semiconductor business (OSAT, PCB) will keep investors interest high in KAYNES.

### Exhibit 16: Change in estimates

| (Rs mn)           | Old estimates |        | New estimates |        | % Variance |      |
|-------------------|---------------|--------|---------------|--------|------------|------|
|                   | FY25          | FY26   | FY25          | FY26   | FY25       | FY26 |
| Revenue           | 28,069        | 42,897 | 28,069        | 42,897 | -          | -    |
| EBITDA            | 4,178         | 6,428  | 4,178         | 6,428  | -          | -    |
| EBITDA margin (%) | 14.9          | 15.0   | 14.9          | 15.0   |            |      |
| PAT               | 2,559         | 3,429  | 2,785         | 3,428  | 9          | (0)  |

Source: Systematix Institutional Research

### Exhibit 17: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

## Key Risks

- Demand slowdown in the key user segments (automotive, industrial etc.)
- Loss in key customer's market share
- Failure in new business foray

## FINANCIALS (CONSOLIDATED)

### Profit & Loss Statement

| YE: Mar (Rs mn)           | FY22         | FY23          | FY24          | FY25E         | FY26E         |
|---------------------------|--------------|---------------|---------------|---------------|---------------|
| <b>Net revenues</b>       | <b>7,062</b> | <b>11,261</b> | <b>18,046</b> | <b>28,069</b> | <b>42,897</b> |
| Growth (%)                | 68           | 59            | 60            | 56            | 53            |
| Direct costs              | 4,894        | 7,801         | 13,299        | 20,181        | 30,584        |
| Gross Margin (%)          | 30.7         | 30.7          | 26.3          | 28.1          | 28.7          |
| SG&A                      | 1,231        | 1,777         | 2,205         | 3,711         | 5,885         |
| <b>EBITDA</b>             | <b>937</b>   | <b>1,683</b>  | <b>2,542</b>  | <b>4,178</b>  | <b>6,428</b>  |
| EBITDA margins (%)        | 13.3         | 14.9          | 14.1          | 14.9          | 15.0          |
| - Depreciation            | 132          | 187           | 251           | 730           | 1,287         |
| Other income              | 41           | 114           | 559           | 546           | 135           |
| Interest Exp              | 256          | 349           | 533           | 306           | 736           |
| PBT                       | 590          | 1,260         | 2,317         | 3,689         | 4,541         |
| Effective tax rate (%)    | 29.4         | 24.5          | 20.8          | 24.5          | 24.5          |
| + Associates/(Minorities) | -            | -             | -             | -             | -             |
| <b>Net Income</b>         | <b>417</b>   | <b>952</b>    | <b>1,834</b>  | <b>2,785</b>  | <b>3,428</b>  |
| Adjusted income           | 417          | 952           | 1,834         | 2,785         | 3,428         |
| WANS                      | 46           | 58            | 64            | 64            | 64            |
| FDEPS (Rs)                | 7            | 15            | 29            | 44            | 54            |
| FDEPS growth (%)          | 344          | 128           | 93            | 52            | 23            |

### Balance Sheet

| YE: Mar (Rs mn)         | FY22         | FY23          | FY24          | FY25E         | FY26E         |
|-------------------------|--------------|---------------|---------------|---------------|---------------|
| Share capital           | 462          | 581           | 639           | 639           | 639           |
| Net worth               | 2,026        | 9,590         | 24,869        | 27,654        | 31,082        |
| Total debt              | 1,891        | 1,547         | 3,225         | 3,425         | 11,425        |
| Minority interest       | 11           | 13            | 16            | 16            | 16            |
| DT Liability/(Asset)    | 68           | 77            | 102           | 99            | 96            |
| <b>Capital Employed</b> | <b>3,996</b> | <b>11,228</b> | <b>28,212</b> | <b>31,194</b> | <b>42,620</b> |
| Net tangible assets     | 820          | 1,073         | 2,857         | 14,127        | 24,840        |
| Net Intangible assets   | 329          | 403           | 469           | 469           | 469           |
| Goodwill                | 23           | 23            | 152           | 152           | 152           |
| CWIP                    | 44           | 112           | 766           | 766           | 766           |
| Investments (Strategic) | -            | -             | -             | -             | -             |
| Investments (Financial) | 15           | 33            | 1,318         | 318           | 318           |
| Current Assets          | 4,776        | 7,678         | 11,836        | 17,182        | 24,528        |
| Cash                    | 216          | 4,860         | 15,256        | 4,689         | 1,084         |
| Current Liabilities     | 2,229        | 2,953         | 4,440         | 6,507         | 9,535         |
| Working capital         | 2,548        | 4,725         | 7,396         | 10,674        | 14,992        |
| <b>Capital Deployed</b> | <b>3,996</b> | <b>11,228</b> | <b>28,212</b> | <b>31,194</b> | <b>42,620</b> |
| Contingent Liabilities  | 993          | 1,255         | -             | -             | -             |

### Cash Flow

| YE: Mar (Rs mn)           | FY22  | FY23  | FY24    | FY25E    | FY26E    |
|---------------------------|-------|-------|---------|----------|----------|
| EBIT (incl. other income) | 844   | 1,525 | 2,465   | 3,448    | 5,141    |
| + Non-cash items          | 132   | 187   | 251     | 730      | 1,287    |
| OCF before WC changes     | 976   | 1,713 | 2,717   | 4,178    | 6,428    |
| - Incr./(decr.) in WC     | 743   | 1,626 | 1,534   | 3,279    | 4,318    |
| Others including taxes    | 22    | 503   | 481     | 907      | 1,115    |
| Operating cash-flow       | 211   | (416) | 701     | (7)      | 995      |
| - Capex                   | 422   | 581   | 3,826   | 12,000   | 12,000   |
| Free cash-flow            | (211) | (997) | (3,125) | (12,007) | (11,005) |
| Acquisitions              | -     | -     | -       | -        | -        |
| - Dividend                | -     | -     | -       | -        | -        |
| + Equity raised           | 4     | 6,600 | 13,436  | -        | -        |
| + Debt raised             | 301   | (336) | 1,702   | 200      | 8,000    |
| - Fin Investments         | 33    | 4,453 | 10,461  | (1,000)  | -        |
| - Misc. Items (CFI + CFF) | 22    | 622   | 1,617   | (241)    | 600      |
| Net cash-flow             | 38    | 191   | (65)    | (10,566) | (3,605)  |

### Ratios @ Rs 4,240

| YE: Mar             | FY22  | FY23  | FY24  | FY25E | FY26E |
|---------------------|-------|-------|-------|-------|-------|
| P/E (x)             | 650.3 | 284.7 | 147.8 | 97.3  | 79.1  |
| EV/EBITDA (x)       | 291.1 | 159.0 | 101.9 | 64.5  | 43.7  |
| EV/sales (x)        | 38.6  | 23.8  | 14.4  | 9.6   | 6.6   |
| P/B (x)             | 133.8 | 28.3  | 10.9  | 9.8   | 8.7   |
| RoE (%)             | 20.6  | 9.9   | 7.4   | 10.1  | 11.0  |
| RoCE (%)            | 24.4  | 21.1  | 14.4  | 13.4  | 14.3  |
| RoIC                | 25.2  | 31.7  | 29.5  | 20.4  | 15.6  |
| DPS (Rs per share)  | -     | -     | -     | -     | -     |
| Dividend yield (%)  | -     | -     | -     | -     | -     |
| Dividend payout (%) | -     | -     | -     | -     | -     |
| Net debt/equity (x) | 0.8   | (0.3) | (0.5) | (0.1) | 0.3   |
| Receivables (days)  | 102   | 74    | 72    | 72    | 72    |
| Inventory (days)    | 117   | 134   | 111   | 106   | 101   |
| Payables (days)     | 85    | 72    | 73    | 73    | 73    |
| CFO:PAT (%)         | 51    | (44)  | 38    | (0)   | 29    |

Source: Company, Systematix Institutional Research



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